



ECONOMICS MADE EASY

Part 1

4. International Implications

Cheap Labour (1) (December 1970)

Eccles holds my nose hard down on the tariff grindstone. It is a painful process, but I presume beneficial. But I can't help wistfully peering sideways around the grindstone at my parliamentary colleagues who have time to run around their electorates opening things and getting votes. All I am getting is a sharp and sore nose.

One of the traditional arguments for tariff protection is that it protects Australian manufacturers from the competition of cheap labour countries. Often the same people use exactly the opposite argument, namely, that it is necessary to protect Australian manufacturers from U.S.A. competition where wages are higher but where greater through-put gives the economies of scale. These people remind me of the boxer who proudly boasts he will take on allcomers as long as they don't have a strong left or a vicious right hook.

But to go back to this cheap labour argument. Sometimes the very people who use it are awfully nice people who, after they have finished presenting this case, turn around hurriedly and abuse me because I am not giving enough overseas aid to the undeveloped countries or am not letting in enough Asian migrants.

A few years ago I was in Bombay and one morning visited a milk factory where they were reconstituting Australian skimmed milk powder, using Australian machinery given under the Colombo Plan. As far as I could tell it was a well run show and the milk was needed and appreciated. And certainly Australia had plenty of skimmed milk powder to sell them. I asked them if they had any troubles and they said only one. "We like your skim milk powder, but we have difficulty in getting enough foreign exchange so that we can buy enough of it."

In the afternoon I visited a really first class cotton sheeting factory which again, as far as I could judge, was excellently run. At the end of the visit I asked if they had any troubles. "Only one," they said. "You people in Australia put a tariff of 55 per cent against our sheets so that we can't sell them in your country and this prevents us earning foreign exchange."

Now it is well-known that I am a modest Member with more to be modest about than most and this is perhaps the reason why I find it so difficult to see the sense in all this. The Australian dairy farmer can't sell him skim milk powder, the Australian housewife has to buy dear sheets, the Indian kids can't get milk and the efficient Indian sheet factory can't make sheets. And this is brought about by the good and wise government which Mavis says I must not criticise.

There are two points that really worry me about this argument that we should not buy from cheap labour countries. The first is, how are they going to survive if we don't? Everyone is relieved to see how Taiwan, South Korea, Hong Kong and Singapore are really pulling themselves up by their bootstraps and are learning to use their plentiful and comparatively cheap labour effectively to efficiently make goods we need. Our satisfaction is twofold: we

just like to see people do well by their own efforts and we can't help feeling relieved that non-Communist countries in particularly dangerous areas are demonstrating that non-Communist methods are viable. So we want them to get on for these reasons, but we don't want to buy from them because their labour is cheap.

My second worry is even more important. About 42 per cent of our exports in the last financial year went to Asia — to cheap labour countries. It seems a funny way to encourage the growth of our exports — to refuse to buy their exports, just because their labour is cheaper than ours.

There is a frightening tendency for governments all over the world to erect barriers to trade. The European Economic Community is leading us down this dangerous slope with the U.S.A. edging towards it. It is a most unfortunate time for us to refuse to buy Asian exports because they are cheap.

Cheap Labour (2) (October 1971)

The other day I was grizzling away in parliament about the high duties on textiles and someone from the other side of the chamber interjected, "Don't you believe in protecting us against imports from cheap labour countries?"

This rather floored me. I must admit that most interjections floor me. Often I think of some splendid answer: indeed I sometimes nearly kick the end out of the bath, laughing at my splendid replies. But this is usually about a month later, which rather spoils the effect.

This jibe about "cheap labour" was intended to hurt. A few years ago the word "black" would have been added to "cheap". It is the justification used by many protectionists. What does it really imply?

We know that low money wages do not necessarily mean cheap real wages. But in many cases, real wages are often much higher in Australia than in Asian countries. The question is whether we should try to stop the importation of goods from these countries for this reason.

Let us take as an example the action of the government on shirts and knitted garments. The Minister made it clear that he thought the Tariff Board was right in principle to lower the duties, but to do this would mean exposing our industries to competition from Hong Kong, Taiwan, China and South Korea where labour costs are lower. So negotiations are to begin to limit imports from these countries.

Well, there are a few points that ought to be made. One is that Fred and his fellow farmers have to compete on equal terms in export markets with countries whose labour costs are less than ours. For instance, no one gives us more for our wool because our labour costs are higher than South Africa's, or for our dried fruits when we sell in competition with Greece. It is evidently thought to be fair for Fred and his friends to compete on equal terms with cheap labour countries, but only if you have a farm and not a factory.

And, second point, if we limit imports from Asian countries, we limit their ability to buy from us. The greatest need of these countries is foreign exchange. An important reason they don't buy more from us is that they just haven't got the foreign exchange to do it.

In the case of these four countries, Hong Kong, Taiwan, China and South Korea, in 1970-71 we exported to them \$203m worth of goods, yet we only bought from them \$121m, leaving a

balance in our favour of \$82m. I wonder how much more they would have bought from us if we had bought more from them?

Thirdly, putting blocks in the channels of trade with Asian countries is always likely to unnecessarily irritate them even if they have the foreign exchange to buy our goods. I don't think it would have been exactly helpful to the wool market to have the Australian manufacturers of woven man-made fibre cloth going to our best wool customer, Japan, earlier in the year, asking her to cut down on her supply of textiles to us; particularly when last year we sold to Japan \$614m more goods than we bought from her. I hope Fred doesn't get to hear about this.

Fourthly, everyone knows what industrialisation can do for a country. Again, look at Japan. A short while ago she was regarded as an undeveloped country, now she is our best customer. These other countries might one day become as good a customer as is Japan, if industrialisation is successful. We want it to be successful, but we don't like buying the products of the process.

Fifthly, everyone knows that trade is indeed more important than aid, that aid alone destroys the morality and the economy of poor countries. So we urge self-help on them in eloquent speeches. But when they start to do it and to sell us something cheap, we say, "Oh, no, we didn't mean that. Sell it to America or to the U.K., or to someone else. Not to us. We can't allow our industries to meet the competition of cheap labour countries."

So the next time that chap interjects across the chamber he will cop it between the eyes. All I need is time!

Bureau Industry Economics (January 1979)

When the government formed the Bureau of Industry Economics (B.I.E.) Eccles went off his food. He knew that the manufacturers had been asking for such a body for some time, saying that they ought to be serviced by an independent group in the same way as farmers were serviced by the Bureau of Agricultural Economics. Eccles was suspicious that the B.I.E. would be expected to give its milk down every time the government or the manufacturers rattled the bucket.

When the first report of the B.I.E. was published—called *Industrialisation in Asia—Some Implications for Australian Industry*—Eccles was sure that it would agree with the government's statements that we were doing all we could be expected to do in trading with our Asian neighbours. Ever since we caught out the previous Minister, Senator Cotton, using Asian trading figures rather carelessly, we have both been rather suspicious when the good and great quote figures about our trade with Asian countries. So I can understand why Eccles was so suspicious about this first research paper of the B.I.E.

But after he had read it he had a big smile on his dial. 'I couldn't have written better myself' he said with his usual condescension. 'Just listen to this.' Then he read out a quote from page 121 of the report which said:

This link between increased trade and economic growth is a theme in this report that deserves special emphasis. It suggests that economic growth in Australia as well as in the developing Asian countries can be assisted by greater trade between the two regions; with each specializing in goods and services which it can produce most economically.

Eccles read this over twice, very loudly, and then said truculently that that was what he had been saying all along.

Eccles cannot understand why things often do not turn out as badly as he anticipates, why people who he regards with such suspicion perform so well when they are given the task of making independent and public reports. I suppose that, for professional people, the discipline of knowing that their work will be made public must be a great deterrent to saying things they know are wrong. It would be one thing to tell a Minister in private what you know he wants to hear, but it is different when your advice is exposed to the world, and particularly to your peers, if it is economic nonsense.

That may be the reason why people show this somewhat surprising independence of mind, but there may be another reason. An Australian once expressed surprise to the Minister for Justice in South Africa that the government of that country did not take care to appoint judges to their High Court who were subservient to the government's point of view. 'We do, indeed we do', the Minister replied, 'But after they have been there for six months they think that they have been appointed on merit!'

I don't know what the reasons are but I am unutterably thankful for the result.

The Harries Report (November 1979)

Eccles has been getting so much good news lately that he is becoming hard to handle. It started way back in the past with the Vernon Committee saying in 1965 that tariffs would have to come down in the long run. Then came the Jackson (1975) and Crawford (1979) Reports, the White Paper on Manufacturing Industry (1977), the Senate Report on Research and Development (1979), then the Stan Kelly Memorial Lecture in 1979 by the secondary industry leader, John Uhrig; all of them saying the same thing, that tariffs must come down as soon as possible. Then in the middle of September 1979, Mr Peacock gave the Menzies Memorial Lecture in which he said encouraging things about the manufacturing industry standing on its own feet, not ours. And he referred most respectfully to the *Harries Committee Report on the Third World* which was made public the next day. Eccles always carries this around with him. He says that it is going to be the straw that breaks the backs of the high protectionists. And when I saw the size of it I can well imagine that this will be the likely result. There are 376 pages of it and every word weighty.

When you look at the quality of the people on the committee it is not surprising that they did their job well. Indeed, the membership reads a bit like a Who's Who of the best brains in the country; top ranking civil servants, academics, business leaders and a top trade unionist, Mr Nolan. No one could claim then that they were a lot of lightweights. I am not surprised that Mr Peacock quoted from the Report with respect and confidence in his Menzies lecture.

There are so many quotes I could cull from the Report which would square exactly with what Eccles and I have been saying for so long, that we find ourselves embarrassed with riches. Eccles wants me to quote chapter after chapter but I will be merciful and will only use one small paragraph. But it is packed with wisdom.

Australia should give its strong support to policies directed at reducing barriers to international trade both as a contribution to achieving more rapid economic development and as being necessary on the grounds of equity and better political relationships. To be taken seriously in this regard, however, we must ourselves take action to liberalise progressively our own restrictions on imports.

It is only when you look carefully at that pregnant paragraph that you realize its full import. We are at last coming to realize that there are two good reasons for trading more freely with our ASEAN neighbours. The reason usually emphasized is that, by so doing, we will help them. But far more important from Australia's point of view is the recognition that it is very much in our interest to trade more freely with Asia. We know now what great benefits Australia gained when Japan took off economically after the war. She is now a great trading nation and we have gained greatly thereby. The same thing is about to happen in the ASEAN countries, yet small-minded men ask us to turn our backs on the opportunities that loom in this part of the world so that we can shelter our poor, weak, inefficient industries from the real world on our doorstep. We can do what they say, we can retreat into our little shells and become recognized as being increasingly irrelevant in our region. For our own sakes, if not for others, the message is plain: our own economic development will be hindered if we persist with our present policies. We need Asia more than Asia needs us.

The second part of the paragraph recognizes the harm that our present policies are doing to our Asian neighbours. Each time we place barriers in the way of their trade with us we make nonsense of our protestations at international conferences about the damage that trade barriers do to underdeveloped countries. We do indeed damage other countries as well as ourselves. We must be rapidly reaching the stage when no one will believe us any more, indeed, we are finding it increasingly difficult to believe ourselves.

There is, however, a more frightening and sordid aspect even than this. Most of the pressure to continue our present tragic policies comes from small but vociferous pressure groups such as the textile lobby which will stop at nothing to scare the daylights out of our statesmen to prevent them from taking action that almost everyone knows would benefit ourselves and our neighbours. It is about time we started asking who is responsible for the foreign policies of our country: Mr Peacock or Mr Aitchison, the spokesman for the textile lobby?

Well, who is, anyway?

Institute of International Affairs (November 1979)

Recently, I was asked by the Institute of International Affairs to go to Melbourne to talk about the economic relationships between Australia and the ASEAN countries. I accepted because I do not get many chances to give tongue these days and I knew that Eccles would prepare my talk for me and all I would have to do would be to read it.

Senator Sim, a Liberal from West Australia, was the first speaker. He said that we were harming our relationship with ASEAN countries by preaching about the benefits that would follow the lowering of trade barriers but then doing the opposite. His main message was that we needed ASEAN far more than they needed us and by adopting our present dog in the manager attitude towards them, we were hurting ourselves even more than them. The ASEAN countries were expanding their economies in the same way as did Japan after the war, but if we were not careful they would go steaming past us as we crouched cowering behind our tariff wall, treating their development as a threat and not an opportunity. Eccles would have agreed with everything he said but he would have used longer words.

The next speaker was Mr Lionel Bowen, the Deputy Leader of the Opposition in Commonwealth Parliament. When I heard his well-modulated tones I realized that I was listening again to a typical M.P. who didn't have much to say but was determined to say it at

inordinate length. This was particularly noticeable when someone asked him a question; he went wandering off into the distance and I went to sleep. As far as I could gather, he seemed to be in favour of freer trade between us and ASEAN if this could be arranged without upsetting anybody and if the ASEAN countries could arrange to govern themselves in the same wonderful democratic way that we do in Australia. I didn't like to say so, but I couldn't help thinking that he had a bit of a nerve telling them how they should arrange their affairs when we do not always appear to have been a shining example of how to behave.

I spoke the next day and I suppose that I was pretty dull. It is a great pity that Eccles is such a bore. I agreed with Senator Sim that we needed ASEAN more than they needed us. Eccles had prepared some figures to correct the line, pedalled by government spokesmen, that we were treating ASEAN generously. The truth is that the gap in our favour between the trade of Australia and ASEAN continues to widen as this table shows.

	\$,000s				
	1969-70	1970-71	1971-72	1972-73	1973-74
Exports to ASEAN	287,267	297,192	328,996	388,817	501,636
Imports from ASEAN	104,816	87,446	96,946	107,007	194,353
Trade gap	182,451	209,746	232,050	281,810	307,283
	1974-75	1975-76	1976-77	1977-78	1978-79
Exports to ASEAN	724,961	659,355	722,154	856,765	1,099,653
Imports from ASEAN	244,695	316,965	431,069	556,857	641,876
Trade gap	480,266	342,390	291,085	299,908	457,777

Eccles put that table in because he has noticed a tendency for the good and great to be a bit careless in the way they use figures in this area. The table shows without doubt that we need them more than they need us.

In the House of Representatives on 25 September 1979, the Prime Minister, Mr Fraser, also used logic rather carelessly. He gave the impression that we were entitled to feel rather virtuous about our trade with ASEAN because our population is so small compared to theirs. This is true; in 1978/79 we imported from ASEAN at the rate of \$45 per head of our population while they only imported from us at the rate of \$4.37 per head. Yet if the balance of virtue of trade between countries is to be measured on a per head basis, some odd situations will appear. For instance, last year we imported from New Zealand at the rate of \$30.1 per head of our population while they imported from us at the rate of \$241.25 per head of theirs. Eccles says that it is a silly measure and should not be used.

The most interesting part of the seminar came at the end when Mr John Thompson, a Labor M.P. from N.S.W., spoke about Labor's revised tariff policy. Evidently Mr Thompson has no great leadership ambitions because he spoke simply and clearly. He said that he had been working closely with Mr Bowen and he was proud to be able to tell us that the Labor Party now realized that, while they were in government in Canberra, the wretched academics had led them astray about tariffs. But now they had seen the light and from now on they were going to revert to their old policy of giving all industries the protection they needed.

When Mr Thompson blamed the Labor government's failures onto the wretched academics there was a noticeable shuffling of the feet amongst the audience, more than half of whom were academics. But at least when Mr Thompson sat down we knew where Labor stood about tariffs. We certainly would not have discovered this if we had been listening to Mr Bowen.

Professor Campbell (October 1979)

An article I wrote following the Prices Justification Tribunal's report on beef marketing showed the great regard that Eccles has for Keith Campbell, the Professor of Agricultural Economics at the University of Sydney. This is not surprising because the two of them have a lot in common; both have the nasty habit of telling people what they do not want to hear and both express their unpopular precepts in gravelly voices, spoken through their noses.

In that article I compared Professor Campbell's dissection of the beef marketing problem with the butchering expertise shown by our experienced old neighbour when Mavis and I, soon after our marriage, had a steer carcass laid out on the kitchen table. We didn't know what to do next because there were no dotted lines on the carcass as there were in Mavis's brand new cookery book. But our neighbour, with a sharp knife and a lot of experience, soon had the problem cut into manageable portions, each neatly labelled for the oven or the griller.

When I was a Member of Parliament I often used to proclaim that my farmers were not only important to me, but they were important to Australia and the world. 'In the future, when there is standing room only in the world, my farmers will be entitled to a special place in heaven,' was my perpetual plea. 'They must be given the costs of production and everything else they want, such as marketing schemes. They are not activated by base self interest or greed but by benevolence. They are dedicated to feeding the world, which, without their selfless efforts, will starve.' Then I would sit down to prolonged applause, helped, I will admit privately, by some well executed work with my handkerchief.

But now Professor Campbell has blown this outlet for eloquence by writing a book called *Food for the Future*. With his usual impeccable logic, he takes apart the myth that the world is poised on the brink of starvation. At the end of his book he says:

The foregoing analysis of the impediments that inhibit the world's farmers from achieving the production levels of which they are capable points directly to governments as the major villains of the piece . . . The agriculturalists of the world, as we have seen, have the skills to do their task and deliver the food requirements of the world's population in the next century without putting significant strain on world resources. It remains for governments both individually and in concert to devise satisfactory viable solutions to the problem of food distribution as part of a more general attack on the problem of poverty.

Food production then need not be a problem. The jeremiads of the doomsday men about the future food production potential of the world are just plain wrong. With the prospect of continued progress in containing population growth and with more attention to agricultural science and its application on farms, the world can look forward to substantially better diets in the future than were ever enjoyed in the past.

Professor Campbell agrees with John Kennedy when the latter said in 1963:

We have the means, we have the capacity to eliminate hunger from the face of the earth in our lifetime. We need only the will.

I am glad I am out of politics. It is easier to criticize governments for their lack of will than to find ways of doing things better. Professor Campbell has pointed out some of the ways but there are not many votes in them, so the will is lacking.

That seems to be the root of the problem, really.